FINAL REPORT OF THE WORKING GROUP "GERMAN SECURITISATION PLATFORM"

The challenge of financing the transformation for companies and banks in Germany - Securitisation as an instrument for linking bank loans and capital markets

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Stiftungsprojekt Kapitalmarktunion

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Content

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1 Preface

The German economy is facing a historic challenge: the transformation towards a sustainable and digital future. The associated financing needs are enormous, and mobilising the necessary funding will be crucial to its success. Particularly given that Germany's economic structure is dominated by SMEs and its banking sector rests on three pillars, securitisations can and must contribute to financing the transformation at the junction between bank-based corporate financing and the capital market.

In the past, the KfW securitisation platforms PROMISE and PROVIDE already demonstrated that private capital can be mobilised very successfully via platform solutions. Portfolio risks in the triple-digit billion range were placed with investors, which considerably strengthened the lending capacity of banks. A look at the history of securitisations in Germany also shows excellent performance. And the SPV platform of True Sale International (TSI) provides an established infrastructure for setting up special purpose vehicles.

However, the global financial crisis marked a turning point. The market was so badly affected that the European Commission is now trying to ‘revive’ the securitisation market because it benefits the economy. Growing awareness of the benefits of securitisation and the increasing need for a functioning securitisation market within the framework of the

European Capital Markets Union is also becoming evident in the public debate and among banks.

But why are banks not yet making wider use of the possibilities of securitisation? A working group of experts has addressed this question and has come to the conclusion that securitisation can already be established more strongly in the German banking sector by providing better information about it and by simplifying and standardising the product. A platform solution enables economies of scale to be leveraged by standardising the structure, legal documentation and data, so that access to the securitisation market becomes easier, more cost-effective and thus more attractive for banks.

Securitisation in Germany stands for quality and a positive contribution to the long-term financing of the real economy. This report by the working group, whose members have a total of more than 150 years of securitisation expertise, addresses obstacles and approaches to solutions and highlights the possibilities of a new securitisation platform.

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2 Securitisation and financing the transformation

German companies and banks are about to undergo a historic structural transformation. The transition of the German economy towards climate neutrality requires huge investment. KfW predicts that **investment in climate action will have to rise by around EUR 70 billion each year**, or a total of EUR 1.9 trillion, by 2045. At the same time, the **German economy needs to be digitalised**, and KfW calculates that this will require **further investment of EUR 50 billion to 100 billion per year**.[1] Public support will not be sufficient to finance these funding needs, so private capital must be mobilised. This is particularly relevant for Germany as a business location dominated by small and medium-sized enterprises. While large companies usually have broad access to the capital market, SMEs have limited or no access at all. Companies in Germany obtain around 70-80% of borrowed funds in the form of bank loans. SMEs are therefore largely dependent on access to bank loans to finance investments.

In order to lend more, banks need their equity to grow accordingly. Although the banking system still has a robust capital base, the restructuring of the economy will require banks to increase their lending considerably and thus raise additional equity. Depending on their legal form, banks can generate additional equity via the liabilities side by retaining profits, increasing their capital base, issuing subordinated debt and managing their assets by securitising loans. Banks will have to use a mix of these instruments to avoid equity shortages in the medium and long term and to be able to accompany their clients' credit growth. Given the scale of the investment and financing needs across the economy, it is clear that securitisation will also have to make a contribution.

Securitisations have a crucial role to play. They act as a bridge between bank-based corporate financing and the capital market. Securitisations allow banks to transfer part of their credit risks to the capital market, strengthen their equity and thus create scope for new lending. Securitisations in the form of a sale of receivables (true sale) as well as synthetic on-balance-sheet transaction can each contribute to risk reduction and thus

[1] KfW 2022. A boost in investment for the transformation – what exactly is needed?, KfW Research Position Paper, 2 November 2022.

capital relief. **Synthetic on-balance-sheet transactions are the method of choice.** Regulatory relief of banks' equity can be achieved more cost-efficiently than with 'true sale' securitisations especially where there is no need for liquidity and the portfolio consists of corporate loans in different jurisdictions or the underlying loan agreements do not permit a sale of receivables. In **synthetic on-balance-sheet transactions,** the securitised assets remain on the bank's balance sheet, and only the credit risk is transferred to non-bank investors via credit linked notes or similar instruments. The securitising bank applies the regulations on what is known as 'significant risk transfer' (SRT) according to the CRR with the approval of the respective banking regulator and gains additional capacity for new lending by releasing risk-weighted assets. Thus, private capital is mobilised outside the banking sector and the lending or financing scope of banks is increased for financing investments in the sustainable transformation of the economy.

Expanding and strengthening the European securitisation market is therefore high on the agenda of the European Capital Markets Union, and given that reservations about the instrument still remain, a look back is necessary. Empirical data on European securitisations shows that their default rates were low before, during and after the global financial crisis of 2008.[23] Due to the high default rates of US securitisations and their impact on the global financial system, the Basel Committee increased the capital requirements regarding securitisations for banks. In the EU, these changes were implemented with the introduction of the new Securitisation Regulation EU 2017/2402. At the same time, confidence was strengthened through extensive transparency and disclosure requirements and the STS framework. But this process took time. After the Basel Committee's initial announcement of the new regulation in December 2012, it took until 2018 for the political decision-making process in the EU to be finalised with the adoption of the Securitisation Regulation. This uncertainty and the prospect of prohibitive regulation contributed significantly to the fact that the European market for 'true sale' securitisations contracted sharply by around 40% from EUR 1.2 trillion to around EUR 0.7 trillion between 2012 and 2021.[4] Besides causing a long period of regulatory uncertainty with corresponding shifts into other financial market products and unregulated markets, the new securitisation regulation has significantly increased the costs of securitisation. A

[2] S&P 2022. 2022 Global Annual Structured Finance Default and Rating Transition Study., S&P Global Ratings.
[3] EBA 2020. Report on STS Framework for Synthetic Securitisation under Article 45 of Regulation (EU) 2017/2402.EBA/OP/2020/07, 6 May 2020.
[4] ESRB. 2022. Monitoring systemic risks in the EU securitisation market. July.

major analysis by the European Banking Authority (EBA) in May 2020 highlighted three key points: First, for 80% of synthetic on-balance-sheet transactions in Europe the underlying assets are corporate loans, which means they have a direct impact on the financing of the real economy. Second, the defaults on synthetic on-balance-sheet transactions are actually somewhat lower than those of true sale securitisations, thus disproving prejudices from the time of the great financial crisis. Third, there is a genuine transfer of risk from the banking system since 99% of the investors are non-banks and only around 1% are promotional banks. The subsequent extension of the STS framework to synthetic on-balance-sheet transactions by the EU in 2021 was consistent with these findings and has led to significant market growth.[5]

As is clear from the EBA study, synthetic securitisations of SME loans generate significant benefits for banks but are still little used in Germany. The distinctive SME-dominated economic structure is also reflected in the granular German banking landscape, with over 1,200 banks in total. There are many smaller banks in Germany that focus on their home region[6], a large proportion of which come from the savings bank and cooperative banking sector. The five largest banks in Germany account for only 35% of assets, the lowest figure in the EU.[7] **Particularly for the smaller banks, there is great potential for strengthening equity through the securitisation of SME loans, as alternative instruments are available to a limited extent only.** But smaller institutions in particular have so far rarely resorted to securitisation. Concerns about high complexity, costs and a number of operational and regulatory requirements seem to be causing prohibitive fears, especially among smaller banks. In general, it can be said that the banks that use securitisation successfully in Germany are those that have a suitable size, that have very granular portfolios or that have been securitising for a long time and have 'grown along' with the regulation over the years.

This report addresses the **possibility of a market-driven securitisation platform, which is intended to enable smaller and medium-sized banks in particular to access the securitisation market** and thus make a contribution to financing the transformation. Given the existing barriers to the use of securitisation (section 3), the report discusses

[5] EBA 2020. Report on STS Framework for Synthetic Securitisation under Article 45 of Regulation (EU) 2017/2402.EBA/OP/2020/07, 6 May 2020.
[6] ECB 2022. LSI supervision report 2022.
[7] ECB Statistical Data Warehouse 2023. Reports - Financial corporations - Structural Financial Indicators _ Latest.

existing approaches to securitisation platforms and sets out steps for establishing a new securitisation platform (section 4). section 5 concludes with a rough assessment of the benefits and feasibility of such an initiative.

3 Challenges to the use of securitisation

Securitisations are not complex financial products per se. This is especially true for synthetic on-balance-sheet transactions. While extensive regulation has increased transparency and confidence in securitisations, it has also increased the complexity of structuring and executing securitisations. The associated costs are mostly fixed and thus favour large transaction volumes. Accordingly, the standardisation associated with a securitisation platform can lead to economies of scale and make securitisation a more attractive instrument for smaller and medium-sized banks. The working group identified the following topics as key challenges and developed possible solutions.

3.1 IT / Reporting

Setting up a securitisation transaction places extensive demands on IT infrastructure in order to be able to provide the historical loss data and portfolio information required for due diligence. The same applies to the ongoing monitoring and administration of a securitisation transaction (monthly investor reports, fulfilment of regulatory transparency requirements, labelling of securitised loans in the bank's own systems and identification of defaulted loans, feedback of such information into the reporting systems, mapping of securitisation positions in accordance with Article 18 of the German Banking Act, ECB notification, etc.). This requires a complex IT infrastructure. For small and medium-sized banks, it should be set up on a cross-institutional basis and usually requires the (cost-intensive) involvement of external service providers. The resulting costs and efforts are a potential knockout criterion, especially for smaller regionally oriented banks. At the same time, however, the potential for economies of scale and standardisation is very high, as the initial creation of an IT infrastructure primarily causes one-off fixed costs on which follow-up transactions can build and which could be shared among the participants of a sufficiently large platform. A market-driven central IT platform solution within a group of institutions could provide the corresponding economies of scale.

3.2 Internal bank processes

First-time issuers have to assess the introduction of a securitisation transaction within a costly new product process (NPP) and approve it internally. Within the bank, various central divisions (accounting, legal, compliance, risk management/controlling, finance, IT) must be involved in addition to the product divisions (origination, underwriting, servicing). This internal coordination requires project management, usually the responsibility of the originating bank. In a platform solution, this can be outsourced to a suitable party who can take over this function for a majority of originating banks of a group of institutions. When designing a securitisation transaction, it is also necessary to coordinate the relationships with a number of external transaction partners (accounting bank, trustee, paying agent, placing bank, verification agent, lawyers, tax advisors and auditors, etc.). As a rule, an arranger performs the role of coordinator. A platform solution could achieve economies of scale and standardisation here as well. Within the association, an NPP model could be created which each new bank joining the platform would use internally. Above all, the central institutions of the associations could contribute their experience from past issuances and the existing Basket/Circle structures (see section 4) in close coordination with the respective auditing associations.

3.3 Supervisory process/framework

First-time issuers report that, in particular, the regulatory process for assessing a significant risk transfer (SRT) in the course of a securitisation transaction is costly, complex and lengthy. They perceive the regulatory framework as restrictive, so that regionally oriented banks tend to want to avoid falling under the Securitisation Regulation. Here, too, standardisation via a platform solution could help. For example, practice shows that due to the uniformity of EIF transactions[8] an SRT process is usually more efficient for EIF securitisations than for individual transactions. On a platform, accompanying CRR assessments could be prepared and initial contents of supervisory questionnaires could be pre-filled. Early consultation with the banking regulator during the establishment of a platform structure would be beneficial. Conversely, standardisation within the framework of a securitisation platform (especially for the structure, contracts and data) promotes the

[8] EIF uses standardised framework agreements, which are adapted to individual transactions but basically follow the same pattern.

possibility of a more efficient regulatory approval process. In principle, streamlining the regulatory SRT approval process would also address this barrier.

3.4 Transaction size

From the perspective of issuers and investors, it is very important that the portfolio to be securitised has a minimum size. The minimum size enables the portfolio to have a certain degree of granularity, which is essential for assessing risk. At the same time, the investment must have a minimum size in order to justify the work effort associated with an investment (due diligence, contract negotiations, etc.) from the investors' point of view. For larger regionally oriented banks (balance sheet total of approx. EUR 10-30 bn), an independent securitisation transaction (single originator) could be worthwhile depending on the portfolio structure. For smaller and medium-sized banks, the high fixed costs distributed across the absolute amount of capital relief would probably not be worthwhile. Accordingly, additional potential economies of scale are also evident here if a platform was also intended to enable risk pooling - i.e., the bundling of loans from different smaller institutions (multi-originator).

3.5 Mindset

Securitisation lost much of its public acceptance during the financial crisis. Participation in a securitisation platform must therefore be able to be justified not only internally but also to the public as being useful and in the overall economic interest. The participation of anchor investors or the backing of public institutions such as the EIF can provide support on the investor side in the context of funding programmes as well as qualitatively as a trusted party. Internally, the development of a securitisation instrument is not without challenges either, as securitisations unfold their positive effect in accompanying the investment and financing needs of SME clients primarily in the medium and long term, and because a strategic perspective needs to be adopted. Not all stakeholders have the necessary understanding for the precautionary development of securitisation expertise as part of business continuity planning. Highlighting the advantages of securitisation transactions in public dialogue will be useful to counteract the stigma of securitisation that still exists in some cases and to emphasise its strategic importance in enabling access to finance for the real economy.

The above considerations illustrate the multitude of challenges that have so far prevented regionally oriented banks in particular from using securitisation. At the same time, it has become clear that a securitisation platform offers considerable potential for scaling and support through standardisation. Successful securitisation platforms already exist in the market that can be readily built upon. It is important to differentiate between the standardisation of individual securitisation transactions, where individual banks perform synthetic on-balance-sheet transactions based on a standardised approach (single originator), and the pooling of loans by several banks (multi-originator). In both cases, it must be assumed that a platform within a group of institutions is easier to implement than a platform that would integrate institutions from all three pillars of the German banking sector at the same time.

4 Requirements for a platform for synthetic on-balance-sheet transactions

Securitisation platforms are not new. They already existed in the German securitisation market in the past, provided a positive experience and performed well. Currently, there are both European and national approaches. None of the approaches presented below meets all the needs and challenges outlined above, but they offer good starting points for developing a platform. Against this background, the following section summarises the requirements that a platform for synthetic on-balance-sheet transactions should satisfy.

4.1 EIF - Bilateral synthetic on-balance-sheet transaction for capital relief

The European Investment Fund (EIF), as the EU's promotional institution for SME-focused venture capital financing, uses various forms of securitisation to provide targeted support for (sustainable) lending to SMEs. Over time, the EIF has built up extensive expertise in securitisation investments and is considered an established anchor investor specifically in the SME securitisation market. In the context of a bilateral synthetic on-balance-sheet transaction, the credit risks of a granular SME portfolio (single originator) are usually securitised, and the mezzanine tranche is secured by a bilateral guarantee contract via the EIF. The originating bank thus receives capital relief, enabling it to extend new loans as intended.

4.2 KfW PROMISE transaction

Before the financial crisis, KfW established PROMISE, a platform for synthetic on-balance-sheet transactions for the standardised financing of SME loans. Through a contractual agreement (guarantee agreement or credit default swap), KfW assumed the credit default risk of a reference portfolio previously defined by selection criteria and composed of a large number of individual loans from a credit institution (single originator). The risk was then passed on to the capital market via credit linked notes (CLNs). Investors were mostly German and international banks, investment funds and promotional institutions. The KfW PROMISE structure was no longer used by the banks in the years following the financial crisis due to changes in the regulatory framework. In retrospect, the numerous portfolios of synthetic on-balance-sheet transactions performed under KfW PROMISE were shown to have very low default rates which were even below the expected rates.

4.3 Savings Banks' Credit Basket and VR Circle of the cooperative banks

In the two programmes Sparkassen Kreditbasket (Basket) and Volksbanken Circle (Circle), individual loans are synthetically bundled and then repurchased from the originators via CLNs (multi-originator). The resulting joint/cross liability provides relief to the credit lines by reducing the institutions' own concentration risks. However, it does not provide capital relief. From a regulatory point of view, Basket and Circle are not to be classified as securitisations under the EU Securitisation Regulation. Rather, Basket and Circle are used as a management tool by the respective banks for their own risk management. Both structures provide a standardised premium calculation that was agreed on by participating banks and maps and assesses the respective individual credit risk. The given standardisation within a group of institutions is also of great benefit, comprising, among others, uniform rating models, servicing standards and IT systems and representing a very good starting position for securitisation that provides capital relief.

4.4 Assessment of alternatives

So far, however, there is no alternative in Germany that fully addresses the challenges identified above, makes economic sense and removes the barriers to securitisation for regionally oriented banks. The following table compares the respective features of the securitisation alternatives mentioned in the context of the objective of a platform:

Objective of a platform	EIF - bilateral securitisation	KfW - PROMISE	S-Kreditbasket and VR Circle
(i) Standardisable			
Standard legal documents (guarantee contracts, CDS, CLNs, SPV structure)	✓	✓	✓
Standardised SRT process	✓	✗	✗
Standardised underwriting by the originating institutions	✗	✗	✓
Standardised IT/reporting by the originating institutions	✗	✗	✓
(ii) Access for smaller institutions/portfolios (risk pooling)	✗	✗	✓
(iii) Capital relief for participating institutions	✓	✓	✗
(iv) Involvement of private investors (placement in the capital market)	✓	✓	✗

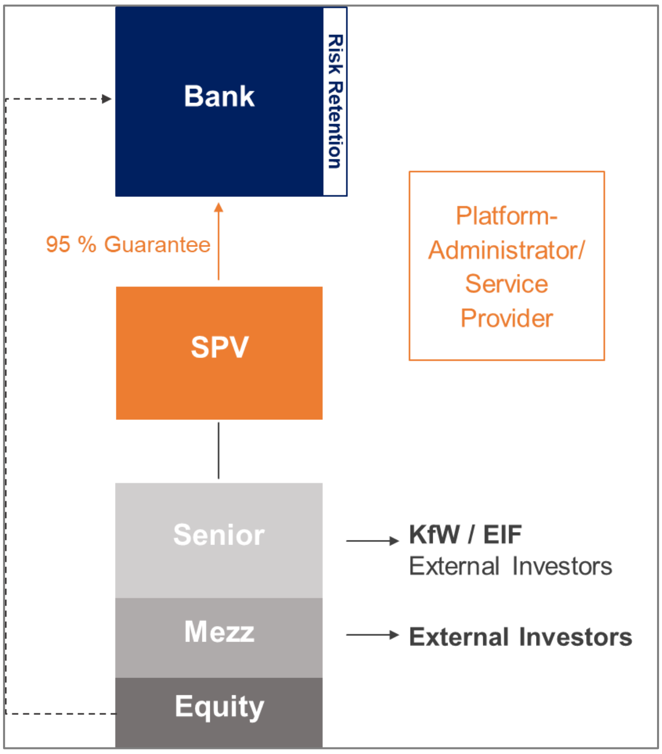
A new securitisation platform should therefore combine the respective benefits of the alternatives mentioned while building on existing structures as far as possible. The following synergies would be conceivable:

Alternative	Advantages/features	Transfer to a new securitisation platform
EIF	Recognised securitisation expertise + mandate to promote the securitisation market	➔ EIF could act as a possible anchor investor
	EIF as Multilateral Development Bank (MDB) is risk-weighted at 0%	➔ Could assume and tranche default risk as a risk intermediary or serve as a guarantor for the senior tranche
	Full deduction methodology (100% coverage) is thus already used in synthetic form	➔ Full deduction methodology could be used for multi-originator pooling to relieve equity
	Sustainability aspects are incorporated via the use-of-proceeds approach	➔ Both ‘use-of-proceeds’ approach and portfolio composition requirements would be conceivable
KfW (PROMISE)	Standardised SPVs under German law with a uniform approach to (i) reporting, (ii) legal documents, (iii) structure	➔ Structure could serve as blueprint for multi-compartment ➔ Integration of a trusted party creates acceptance
	KfW weighted with 0 % risk due to the federal government's state guarantee	➔ EIF as European funding institution could assume and tranche default risk as risk intermediary

VR Circle & S-Kreditbasket	Standardised (i) reporting, (ii) risk pricing, (iii) IT platform for risk transfer, (iv) structure	➔ Standardised IT platforms and established processes (origination, underwriting, servicing) could be transferred to the securitisation platform. ➔ Basic acceptance of cross-liability within a group of institutions already exists and could serve as a basis for a platform

4.5 Specification of the structure of a new securitisation platform

The following structural proposal enables credit institutions to synthetically securitise SME loans in particular via a securitisation platform, to release regulatory capital and to create scope for new lending business. From the perspective of the banks involved (internal view), a new securitisation platform must aim to solve the challenges identified in section 3 in a uniform manner. **With a view to investors and other parties involved (external view), standardising the structure, contracts and data appears essential.** In the following, the analysis focuses on the structure of a synthetic on-balance-sheet transaction. For a possible implementation, contracts and data must of course be standardised in equal measure. Given the structure of the German banking industry, a securitisation platform within a group of institutions organised via the respective lead institutions would be useful.

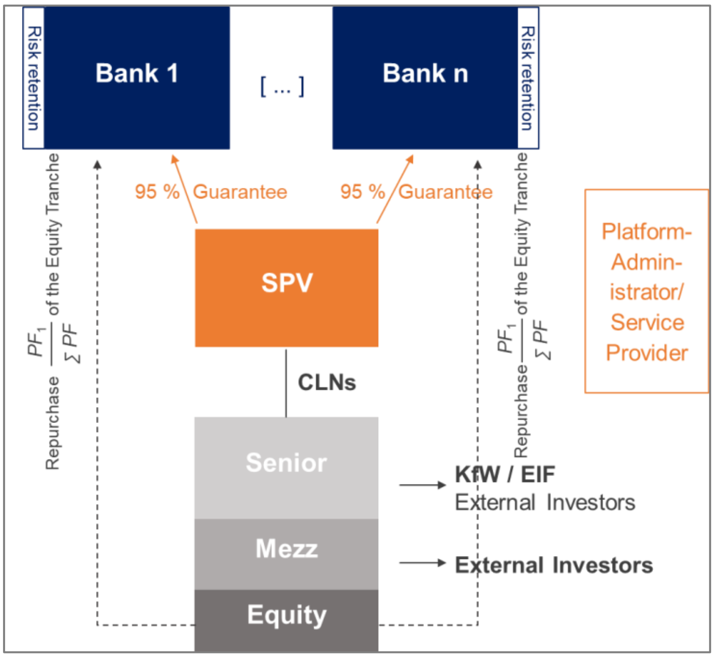


The securitisation platform could enable both securitisation by a single credit institution (option 1) and the bundling of loan portfolios of several credit institutions in a similar way as Basket/Circle structures (option 2).

4.5.1 Option 1: Synthetic on-balance-sheet transaction (single originator)

In option 1, the originator of the synthetic on-balance-sheet transaction is an individual bank which is also the lender of the securitised loans. These remain with the bank (legally and in terms of balance sheet recognition). This takes into account the need in the market not to affect the bank-customer relationship.

The guarantor is a special purpose vehicle ('SPV') established specifically for this transaction. Only credit default risks from the selected portfolio of the individual bank are assigned to the SPV. For transactions with another bank, a new SPV is established. Establishing SPVs domiciled in Germany in the form of a limited liability company or entrepreneurial company has the advantage that the synthetic on-balance-sheet transactions can take place in the German language and legal area, with the disadvantage of slightly higher costs compared with, for example, Luxembourg. Establishing a single SPV domiciled in Luxembourg and forming compartments in accordance with Luxembourg securitisation law provides cost advantages. There is no corresponding regulation for compartments in special purpose vehicles in Germany. Due to the tranching, the transaction qualifies as a securitisation within the meaning of the EU Securitisation Regulation and, in conjunction with the SRT, leads to the desired capital relief. The mandatory retention in a securitisation transaction is provided by the bank, usually by retaining 5% of the value of each loan receivable on a pari passu basis (Article 6 (3) (a) Securitisation Regulation). The remaining 95% (again on a pari passu basis) is covered by a guarantee covering the entire receivables portfolio. The SPV issues CLNs so that the guarantee is fully covered by liquid assets, which enables full recognition by the participating bank under Article 245 of the CRR. The CLNs are issued in three tranches with different seniority (senior, mezzanine and equity). The equity tranche is usually significantly less than 5% and is acquired by the securitising bank (full equity deduction by the bank). The mezzanine tranches are placed with external investors to achieve the SRT and thus capital relief. The senior CLN tranches could optionally be acquired by the securitising bank or placed (in whole or in part) with external investors. An acquisition or reinsurance by promotional institutions is conceivable, for example. Standardisation (uniform model documentation for all transaction documents, uniform reporting standards, data interface to the bank, prior clarification of regulatory issues (opinions), assistance from top



institutions/associations) would be possible with the proposed structure and would contribute substantially to reducing the costs of internal bank processes.

4.5.2 Option 2: Synthetic pooling transaction (multi-originator)

Option 2 uses the same securitisation platform as Option 1. However, the loan portfolios of several banks are bundled in a similar way as in the Basket/Circle structures (pooled 'Germany portfolio'), but mezzanine and senior tranches are placed out. The equity tranche is acquired as CLNs by the participating banks in proportion to their submitted portfolio volume. Since these CLNs relate to the entire portfolio, there is cross-liability between the banks in the amount of the equity tranche (significantly less than 5%). Due to the cross-liability and standardisation requirements, an obvious step would be to bundle the portfolios primarily within the respective groups of institutions.

4.5.3 Evaluation

Option 1 presented above aims to enable larger primary banks of a group of institutions to carry out similar synthetic on-balance-sheet transactions and to achieve economies of scale by ensuring that identical challenges do not have to be solved by each institution individually. The position of each individual bank as originator of a synthetic on-balance-sheet transaction according to a uniform standard is comparable to the KfW PROMISE platform. The draft structure of option 2 presented above also uses the advantages of already existing alternatives (Basket/Circle, EIF) in order to exploit synergy effects and address the obstacles identified in section 4 while being designed as simply and comprehensibly as possible. The focus here is on a larger number of smaller and medium-sized banks in a group of institutions.

Advantages of the platform structure presented:

- The pooling structure (option 2) enables the creation of synergy effects and the integration of regionally oriented banks in particular, which would not be able to cover the high fixed costs of a securitisation transaction or would not achieve a sufficient portfolio size without such a structure.
- Investors have the opportunity to invest in a diversified, highly granular 'Germany portfolio' of corporate loans and thus gain access to the lending business of regionally oriented banks. Due to homogeneous lending standards, especially within the group of institutions, the due diligence effort for investors would remain manageable.
- Much of the (IT/reporting) infrastructure of the existing Circle/Basket structures could also be transferred to a platform in a slightly adapted form.
- The (customary) issue of CLNs enables the participation of multiple external investors and at the same time has the advantage that savings banks and Volksbanken (cooperative banks) are already familiar with the product through the basket/circle structures.
- Using a guarantee on the total portfolio of the individual banks has the advantage that it should be easier to map in the existing systems of the banking industry.
- By fully placing the mezzanine and senior tranches with external investors, the regulatory requirements of the SRT can possibly be reduced by adopting what is known as the 'full deduction approach'. All junior tranches acquired by the participating banks are fully backed by capital.
- Target ratios for a portfolio composition could be included in the guarantee conditions. The participating banks would contribute desired portfolio profiles, so that homogeneous and standardised portfolios are created in compliance with the STS Regulation at the same time and desired data on sustainability factors can be taken into account.
- Leading European and national promotional institutions could provide start-up support by investing in the senior and/or mezzanine tranches. Providing such start-up financing as an anchor investor can overcome entry barriers and enable follow-up transactions to be initiated without public participation.

The ratios of the securitised portfolio and the final tranching are both decisive for calculating the profitability of a synthetic on-balance-sheet transaction. The basic approach is to calculate the cost of releasing an additional unit of released regulatory equity ('cost of capital released'). Therefore, in the above structure the coupon payments on the mezzanine and senior tranches would be compared with the equity released by the structure. The relative equity release is determined by the size of the retained equity tranche, which is fully backed by capital. For the securitisation structure to be cost-effective, both a substantial equity release should be achieved (e.g. at least 50%) at costs that at least do not exceed alternative forms of raising equity via the liabilities side.

As outlined above, complexity and fixed costs mean that economies of scale through standardisation are possible in a securitisation platform and essential for successful implementation. The three main areas of standardisation are (i) structure, (ii) contracts and (iii) data. The structure variants shown above can theoretically be standardised equally for all institutions. Contracts follow the structure and are equally standardisable. However, the topics of origination, underwriting, servicing and data mean that standardisation can create significant added value primarily within a group of institutions.

5 Conclusions and recommendations

The sustainable and digital transformation poses major challenges for both the real economy and the financial system in Germany. On the one hand, the dynamism and flexibility of Germany's economic structure, which is characterised by small and medium-sized enterprises, and the corresponding three-pillar structure of the banking system open up great opportunities. On the other hand, special challenges arise in order to mobilise the private financial resources necessary for the transformation, and an individual solution is needed for the German market. The platform solution presented in the report can lead to economies of scale through standardisation in the areas of structure, legal documentation and data. This would result in cost advantages, which would make it easier especially for smaller banks to access the securitisation market and thus - in the interest of the European Capital Markets Union - provide access to the capital market. This would strengthen the linkages of bank-based corporate financing with the international capital markets, which is so important for the transformation.

The analysis also shows that a uniform, new securitisation platform for institutions of all sizes and from all three sectors of the German banking industry would not be a sensible solution. The prerequisites and needs are too different, some institutions are already using securitisation successfully, and others are at the beginning of the process. A platform solution appears to be most useful within independent groups of institutions and alliances, as this is also where the greatest synergies can be realised. Investor interest in such a solution appears to be high because a platform could offer investors access to smaller banks and a diversified 'Germany portfolio'. Political support for the German Securitisation Platform would help to strengthen a channel for financing the sustainable and digital transformation that is significant for the SME-driven business location of Germany. KfW, EIF/EIB, TSI and other institutions can play a catalytic role in this. However, it seems essential that the initiative and leadership be market-driven, i.e., originates in the respective institutions or groups of institutions. A strong common understanding of the objectives within a group of institutions will be decisive for successful implementation.
Finally, it should be noted that the focus here is on synthetic on-balance-sheet transactions because this instrument promises the greatest benefit in the securitisation of corporate loan portfolios to achieve capital relief for banks. Public true sale securitisations and private transactions including the securitisation of short-term receivables via ABCP are also of great relevance to the financing of the transformation.

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